

Remarks by Catherine Reilly
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[Slide 1]

I'm going to talk briefly about the relationship between higher education, knowledge-based economies, and Maine's future.

First, I'd like to discuss where we stand in relation to other states in terms of higher education – the foundation of a knowledge-based economy.

Then, I'll discuss how our standing affects our economic future.

So first the numbers.

[Slide 2]

About 86% of Maine's adult population has at least a high school degree, which ranks us 4th among the New England states and above the national average.

23% of adult Mainers have at least a bachelor's degree, which ranks us last in New England and below the national average.

So compared to other states, the level of higher education attainment of Maine residents is low.

In light of this, what kind of public investments in higher education are we making?

-We've established the community college system, where student enrollment has increased by over 20% in the last two years and enrollment in degree programs has increased by 36%.

-The Governor has established the P-16 Taskforce to help move toward a seamless education system that guides students from pre-kindergarten to a college degree.

-And we've increased the number of students transitioning from the community college system into 4-year colleges and universities through transfer agreements.

These are important steps in our effort to increase the number of Maine residents pursuing higher education.

But we need to do more.

Because despite these recent advances, Maine residents *still* have less formal postsecondary education than residents in other states.

This affects our economy in two ways.

There's less economic growth from *within* the state and less growth coming from *outside* the state.

Less growth from within because there are fewer entrepreneurs like Chris Frank.

Chris has just told you about the technology that he and his colleagues have developed into a thriving Maine business.

Chris and his team are as successful as they are because they were able to pair their talent with college educations that gave them the skills to utilize that talent.

It all happened in Maine.

There are hundreds of other potential Chris Franks in our state.

But if too few are receiving the educations they need to build their talent, then we will never know who those others are, what they could have done, or how many people they could have employed.

There's also less growth from within Maine because established businesses can't find the skilled workers they need.

[Slide 3]

A recent survey by the Maine State Chamber of Commerce found that almost half of Maine employers are experiencing difficulty in finding qualified workers.

So, low levels of higher education attainment in Maine mean fewer opportunities for entrepreneurial growth and difficulty for established businesses looking to expand.

The second way in which relatively low attainment affects our economy is that less growth comes into the state from outside sources.

The location decisions of U.S. businesses are greatly effected by labor.

Businesses looking for cheap, low-skilled labor will build operations literally on the other side of the world to get it.

They incur huge transportation costs but they still do it.

Other businesses looking for highly skilled, specialized labor will build offices in New York City, where the cost of doing business is very high, in order to get it.

So why does labor play such a key role in their decisions?

Because labor costs are by far the largest component of costs for nearly all businesses.

[Slide 4]

Looking at National Income Accounts, we see that over two-thirds of the money earned in the U.S. each year goes to compensating employees.

Annual surveys of business expenditures done by the U.S. Census Bureau reveal the same pattern.

So there is pressure for companies to get the most out of the money they spend on labor,

and businesses are making decisions based on where they can get the most value for the huge portion of their budgets that they pay to employees.

If businesses don't think they'll be able to find the workers that they need here in Maine, then they won't locate here,

no matter what other incentives we give them.

I'd like to lead you through a thought experiment.

Imagine that you work at a company that is planning to build a new center of operations.

Your company makes some type of product, we'll call it a widget.

Widgets cost \$10 to make.

[Slide 5]

And, since your company is a typical U.S. company, you expect to spend 60% of that on employees - \$6.

Of the other \$4, let's say that
 \$1 is spent on supplies,
 \$1 on transportation,
 \$1 on utilities, and
 \$1 goes to taxes.

You're deciding between two potential locations:

Place A – where workers can make one widget per hour, and

[Slide 6]

Place B – where all costs are equal *except* that workers are more highly skilled and can make two widgets per hour.

You could think of the Place B workers as having college degrees in widget making.

Using the same inputs, and in the same amount of time, they can make double the number of widgets.

[Slide 7]

So, in effect, the labor cost of each widget made in Place B is only \$3 and the total cost of a widget is \$7.

The total cost in Place A is \$10.

Which workers would you prefer to hire? Which location would you choose?

Hopefully you're thinking "B" – the place with the more skilled workers. This experiment serves to illustrate how the knowledge-based economy works.

Today's knowledge-based businesses make their decisions around where they can find skilled workers.

If they can't find those people in Maine, then it will be increasingly difficult for us to entice them here through other means.

The work that you've done during this session to reduce Maine's tax burden is invaluable.

In my example, if the taxes in Place B had been way out of line with Place A, then they could have negated the positive effect of its skilled workforce.

And there are other non-labor costs that we could improve.

But we have to accept the huge pressure on companies to get the most value out of the money they spend on labor.

So in light of the relatively low levels of educational attainment in Maine, and in light of the fact that we are living in an increasingly knowledge-based economy,

how do we ensure that we'll look more like Place B than Place A?

To be honest, having a lot of money would help.

But I realize that money is tight right now and that you in the legislature are facing difficult tradeoffs.

There are some important no-cost and low-cost actions that we could take now to help position us better for the future.

(Slide 7) And for these I really have to give Henry Bourgeois credit.

First, set a goal.

For example, the Maine Compact for Higher Education has set the goal of increasing the percentage of Maine residents with a college degree to the New England average by 2019.

This will require an additional 40,000 degree holders over the next 15 years.

In 2001, the State Planning Office published “30 and 1,000”, a report which set the benchmark of raising Maine’s per capita income to the national average

by reaching 30% of Maine adults with a 4-year college degree and \$1,000 of research and development funding per worker.

Setting a goal like one of these would help you filter the dozens of ideas and proposals that you see every session.

You could measure the potential impact of those proposals against reaching goal.

Second, make a plan.

Maine has a general plan for how we will invest in K-12 education over the coming years.

We need the same thing for higher education. In fact, we need it even more because we have so much ground to make up.

In closing, there is a place for Maine in the growing knowledge-based economy, but we’ll need to continue working hard to secure it.

Thank you.